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Hodnocení finančního zdraví vybrané společnosti

Evaluation of Financial Condition of a Given Company

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3. Common-size Analysis of the Financial Statements
4. Evaluation of Financial Condition
5. Conclusion

Bibliography
List of Abbreviations
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List of Annexes
Annexes

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The declaration
"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

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Contents

1. Introduction

The main goal of this thesis is to analyze and evaluate Weibo's financial status through the annual report from 2014 to 2018. Weibo, established in 2009, has experienced more than ten years of development and has become China's most well-known and leading online social platform, known as China's Twitter. Out of curiosity about the financial development of this mature online social platform, I finally chose Weibo as the analysis target of my bachelor thesis.

This bachelor thesis can be divided into five parts. The first chapter is an introduction to the thesis, including a brief introduction to the research objectives and introduction and content of the thesis.

The second chapter of thesis is description of the financial analysis methodology. In this chapter, I will introduce three main financial statements, including balance sheet, profit and loss statement, and cash flow statement, after which we introduce common-size analysis. Meanwhile, we also introduced financial ratios, including profitability ratio, liquidity ratio, solvency ratio and assets management ratio, and I will also introduce pyramidal analysis and influence quantification.

In the third chapter of thesis, I will introduce the financial character of Weibo through four parts. First, I will introduce Weibo by three parts, they are company profile of Weibo, Weibo's history and Weibo's profit model. Next, I will analyze the financial data of Weibo through horizontal common-size analysis and vertical common-size analysis.

The fourth chapter is the most important part of thesis. In this part, I will use the knowledge introduced in Chapter 2 to analyze the financial ratio of Weibo. First, I will evaluate the financial status of Weibo through the four types of financial ratios introduced in Chapter 2, and conduct a pyramidal analysis and influence quantification on the ROE of Weibo to understand the degree of impact of each financial ratio on the financial status of Weibo.

In Chapter 5, I will summarize this thesis on the results of the above analysis.

2.Description of financial analysis methodology

In every quarter or every year, many companies will publish financial reports. The most important of these financial reports is the financial statements. The various financial indicators contained in the financial statements will be conducted by investors through various analysis methods. Analysis, and this series of evaluation, interpretation and selection of a company is called financial analysis. In the next chapter, I will introduce various financial analysis methodologies through three parts. These three parts are the introduction of financial statements, common-size analysis and financial ratio analysis. In the financial statements section, I will introduce three main financial statements, which are the balance sheet, profit and loss statement, and cash flow statement. Next, I will introduce two analysis methods, horizontal analysis and vertical analysis, in the unified weights and measures analysis section. In the financial ratio analysis section, I elaborate on various major financial ratios and the pyramidal decomposition and influence quantification analysis derived from the financial ratio analysis.

2.1. Financial statement

Financial statements reflect a written record of a company's business activities and financial performance over a given past time point or period. Financial statements are usually prepared by professional financial personnel appointed by the company and are usually reviewed by government agencies (the securities regulatory commission) and accounting firms to ensure the accuracy of the financial statements. Investors in financial markets through the analysis of the financial data in the financial statements of companies, to the company at a given time period or time point of the financial position and earnings potential measurement and evaluation, and finally predicts the future trend of the company's stock price based on the information obtained after the above analysis, which will help investors make a final decision on whether to invest in the target company. Three of the most important financial statements are the balance sheet, the income statement and the cash flow statement.

2.1.1 Balance sheet

The balance sheet, also called statement of financial condition, is one of the most basic and important financial statements. It reflects the status of the assets owned by the company at a given point in time, and it also reflects the status how the company finance these assets. There are three core components of a balance sheet: assets, liabilities and owners' equity. The sum of assets in the balance sheet is equal to the sum of all liabilities plus the owner's equity, which can be expressed by the following formula:

$$Total\ Assets\ = total\ liabilities\ + total\ equity \tag{2.1}$$

Next, we can use figure 2.1 to reflect the structure of the balance sheet in more detail.

Tab. 2.1 An example of the balance sheet

Balance sheet	
Current assets	**Shareholders' equity**
Cash and cash equivalents	Preferred stock
Receivables	Common stock
Inventories	Retained earnings
Total current assets	Total shareholder's equity
Fixed assets	**Current liabilities**
Land	Account payables
Buildings and improvements	Commercial thesis
Less accumulated depreciation	Total current liabilities
Goodwill	**Fixed liabilities**
Total fixed assets	Long-term debt
	Deferred income taxes and others
	Total fixed liabilities
Total assets	**Total liabilities and shareholders' equity**

Source: Dluhosova (2014, p51)

The first element is assets. Generally speaking, assets represent the economic resources owned by a company at a given point in time. It is usually generated by investment behavior, operation behavior and economic behavior. At the same time, assets are generally divided into current assets and fixed assets. Current assets usually refer to assets that can be converted into cash within a year. Current assets generally have the characteristics of strong liquidity and easy to be realized, which usually include cash, cash equivalents, inventory, accounts receivable and other short-term current assets. Fixed assets usually refer to assets that take a long time to be realized or are difficult to be realized. Fixed assets usually have poor liquidity, relatively has the characteristics of long service life, it usually includes tangible assets (land, equipment, building, etc.), intangible assets (trademarks, patents, intellectual property, goodwill, etc.) as well as financial investment (usually in the form of securities, as well as the company's shares held by other companies, bonds, etc.).

Liabilities generally refer to the existing obligations undertaken by the enterprise that are expected to result in the outflow of the company's benefits, liabilities generally reflect the borrower to lend the company's capital, the capital must be on a specified date pay in advance. Liabilities are generally divided into short-term liabilities and long-term liabilities two parts. Short-term liabilities refer to debts that need to be paid within 12 months. Short-term liabilities usually include accounts payable, note payable, dividends payable, short-term loans and other short-term liabilities. Long-term liabilities refer to liabilities with repayment terms longer than one year. Long-term liabilities generally include long-term loans, long-term bonds, deferred taxes and other long-term liabilities.

Shareholders' equity refers to shareholders' investment in the company, and these owners' equity also represent the company's assets belonging to the shareholders and the owners of the company. Owners' equity consists of common stock, preferred stock and retained earnings.

2.1.2 Income statement

Income statement, also called profit and loss (P/L) statement, which is a very important and basic financial statement just like the balance sheet. The income statement reflects the amount of profit or loss a company has generated over a given period of time, usually one year.

There are three core elements in the income statement: net profit (loss), revenue and cost, and there is an equivalence relation among the three elements, that is, income minus expenditure equals net profit, which can be expressed by the following formula:

$$Revenue - cost = net\,profit\ (loss) \tag{2.2}$$

Next, we can use figure 2.2 to reflect the structure of the income statement in more detail.

Tab. 2.2 An example of the income statement.

Income statement
Revenues
Cost of sales
Operating, selling and marketing expenses
Administrative expenses
Operating income
Minority interest
Interest income
EBIT
EBT
Taxation
EAT

Source: Dluhosova (2014, p54)

The first is revenue, which refers to the amounts charged by the delivery of goods or services and the revenue it generates through financial activities. The revenue of the company can be divided into income from operating activities and income from financial activities. Revenue from business activities usually refers to the income gained by the company through activities such as selling products or providing services. Revenue from financial activities refers to the interest earned on cash deposits and the income earned on securities held by a company (for example, dividends earned from investing in stocks of other companies and interest earned by bonds).

And costs refer to the expenses that a company must pay in its daily business activities. The cost of the company can also be generally divided into two parts: operating activity cost and financial activity cost. The company's operating cost usually include direct production expenditures (such as raw material consumption, depreciation of fixed assets, etc.) and indirect production cost (such as wages paid to company employees, administrative expenses, etc.). The financial activities of the company refer to the company's annual stock dividends and bond interest payments and other expenses.

By analyzing the annual profit and loss statement of a company, both the operators of the company and the investors who invest in the company's stock can obtain very useful information. By comparing the company's annual net profit, investors can get to know the company's annual earnings performance and determine whether the company has investment value through these profit performances. And the operators of the company can get the key points and difficulties of the company's operation by comparing the detailed cost and revenue items each year, and make targeted adjustments and improvements to the company's activities through the performance of these data.

2.1.3 Cash flow statement

In the financial statements, cash is a very important factor, so the cash flow of each company is an important part of the company’s financial management, so the cash flow statement that reflects the company’s cash flow has become very important in the company’s financial statements. A part of. The cash flow statement explains the difference between the company’s cash inflows and outflows at the end and beginning of a given period of time, and the cash flow statement also summarizes the company’s cash inflows (source of company cash) and outflows (company cash), And the company’s cash inflows and outflows are generated by the following three company’s daily activities, namely operating activities, investment activities and financial activities. Therefore, the cash flow statement is divided into business activities, investment activities and financial activities. And the company's net cash flow is equal to the sum of the cash flows generated by the above three activities, this relationship can be expressed by the following formula:

$$\begin{aligned} Net\ cash\ flow \quad &= cash\ flow\ from\ operating\ activities \\ &+ cash\ flow\ from\ investment\ activities \\ &+ cash\ flow\ from\ financial\ activities \end{aligned} \tag{2.3}$$

Next, we can reflect the structure of the cash flow statement in more detail through Figure 2.3.

Tab. 2.3 An example of the Cash flow statement

Cash flow from operating activities
Income from continuing operations
Depreciation and amortization
Deferred income taxes
Decrease(increase) in accounts receivable
Increase in inventories
Increase in accrued liabilities
Cash flow from investing activities
Payments for property and equipment
Investment in international operations
Proceeds from the disposal of fixed assets
Other investing activities
Cash flow from financing activities
Dividends paid
Income tax paid
Interest paid

Source: Dluhosova (2014, p57*)*

First of all, let 's talk about operating activities. The cash flow generated by operating activities includes all inflows and outflows of cash generated by the company's daily activities. Business activities that can generate cash inflows include cash obtained by selling products or providing services and interest earned from cash deposits. Business activities that can generate cash outflows include various income taxes paid and wages paid to employees.

Next is investment activities. The cash flow generated by investment activities includes the inflow and outflow of funds related to all tangible assets, intangible assets, and financial investments. Activities such as selling securities of other economic entities will result in cash inflows from investment activities. At the same time, activities such as buying securities of other economic entities will cause cash outflows from investment activities.

The last thing to mention is financial activity. The cash flow generated by financial activities refers to the inflow and outflow of cash generated by activities involving the owners and creditors of the company. Activities such as cash obtained by the company through the issuance of bonds will cause cash inflows from financial activities. At the same time, activities such as paying various types of dividends and bond interest will cause cash outflows from financial activities.

2.2 Common-size analysis

Common-size analysis is a method for analyzing various data in financial statements. Investors can reduce the impact of financial data due to economic growth, inflation, and other economic factors through the use of common-size analysis methods, and analyze to determine the main differences and future trends of the company’s financial data. Common-size analysis mainly includes horizontal analysis and vertical analysis. In the following thesis, I will introduce these two analysis methods.

2.2.1. Horizontal common-size analysis

Horizontal common-size analysis refers to the comparative analysis of a company's current financial situation and past financial situation, and then can understand the changes in various financial data of this company over time. It helps investors determine the trend of the company's financial data over time and the development and change of the company's financial situation. At the same time, the changes in various financial data reflected by the horizontal common-size analysis also help the company's managers understand the company's potential development. Opportunities and business risks. Generally speaking, the calculation methods of horizontal common-size analysis usually include two types, namely, the absolute change value and the relative change value of the calculated data. These two calculation methods can be calculated by the following two formulas:

$$Absolute\ change = U_t - U_{t-1} \tag{2.4}$$

$$Relative\ change = \frac{U_t - U_{t-1}}{U_{t-1}} \cdot 100\% \tag{2.5}$$

In this formula, U_tIs the amount of time for analysis， U_{t-1} Is the amount in the base period.

2.2.2 Vertical common-size analysis

In the vertical common-size analysis, people will compare each individual item with the total number and determine the proportion of this item to the total number. These proportion analyses can clearly reflect the company's total assets, total liabilities, total owner's equity and total the structure of earnings. Generally speaking, the higher the proportion of an item in the total, the higher the impact of the item on the total, and the item will have a greater impact on the company's business activities. The focus of the vertical common-size analysis is to analyze the change in the proportion of each item in the total number of analysis, while the horizontal common-size analysis is more focused on reflecting the trend of the value of each item with time. The vertical common-size analysis can be calculated according to the following formula:

$$E\% = \frac{X_i}{\sum X_i} \cdot 100 \tag{2.6}$$

In this formula, $\sum X_i$ refers to the total number in each financial statement, such as total assets, total liabilities, total owner's equity, and total revenue, and X_i refers to the various sub-items in the financial statement compared with the total number.

2.3 Financial ratio analysis

In financial analysis, financial ratio analysis is a very important type of analysis method. Financial ratios can effectively reflect the company's financial situation, and at the same time they can more effectively help investors, company creditors, and company managers to calculate and analyze the financial data in the company's financial statements. Each financial ratio has its own calculation formula and economic significance.

In the following thesis, I will introduce four types of financial ratios, which are profitability ratio, liquidity ratio, solvency ratio and asset management ratio. The profitability ratio can reflect the company's ability to use capital to generate profits; the liquidity ratio can evaluate the company's ability to use short-term assets to repay debt; the solvency ratio can measure the ability of a company to repay long-term debt; the asset management ratio can reflect the company's use of assets s efficiency.

2.3.1 Profitability ratio

The profitability ratio can reflect the company's ability to use capital to generate profits. In this part, I will introduce four main profitability ratios: return on assets, return on equity, operating profit margin, and net profit margin

1. Return on assets

The first thing to mention is the return on assets (ROA), which reflects the company’s net profit per unit of assets as a percentage. It can reflect the ability of a company to use its total assets to earn net profit, and it can be calculated by the following formula:

$$ROA = \frac{EBIT}{Total\ assets} \tag{2.7}$$

Where EBIT refers to profit before interest and tax.

According to the above formula, it is not difficult to find that the larger the value of ROA, the stronger the company's ability to use assets to obtain profits, and the stronger the company's profitability.

Because the industry of each company is different, and the value of ROA will also be different due to different industries, the most effective way to compare and analyze ROA is to compare the ROA of the selected company with the company. Of companies in the same industry. At the same time, comparing the company's current ROA with the company's past ROA is also an effective way to analyze ROA.

2. Return on equity

Return on equity (ROE), as a percentage of the company's net profit per unit of shareholder funds, is an important indicator to measure the company's efficiency in using shareholder capital. The higher the return on equity, the better the company's ability to use shareholder capital to make a profit. Affected by earning after tax (EAT) and total equity, it can be calculated by the following formula:

$$ROE = \frac{EAT}{Total\ equity} \tag{2.8}$$

Generally speaking, higher return on equity means the company can make profits by using investors' capital more efficiently, but higher return on equity means that the company has more debt, and higher debt brings more risks to the company's financial situation. As a result, a company's return on equity in the 15%-20% range is considered safe and attractive by market analysts.

To compare return on equity is usually between companies in the same industry, and there also has a lot of analysts compare current return on equity with past return on equity, in order to understand the change trend of the company's return on equity over time, to learn that the evolution of the company's ability to use shareholders' capital over time. In the profitability ratio analysis, investors pay more attention to the analysis of ROA and ROE.

3. Operating profit margin

Operating profit margin (OPM) is an indicator to measure a company's operating efficiency. It reflects a company's ability to make a profit without considering the non-operating cost. Operating profit margin is the ratio between operating profit and total revenue, and the relationship between them can be expressed by the following formula:

$$OPM = \frac{Operating\ income}{Total\ revenue} \tag{2.9}$$

In general, the higher the operating profit margin of a company, the stronger the operating ability of the company. Also, the higher the operating profit margin usually means the better the company's ability to control operating costs.

4. Net profit margin

Net profit margin refers to the profit ratio of a company after deducting all non-operating costs (such as the company's income tax). It is the ratio of net profit to total revenue and represents the net profit earned per unit of revenue. The calculation formula of net profit margin is as follows:

$$NPM = \frac{Net\ income}{Total\ revenue} \tag{2.10}$$

The trend of net profit margin over time is roughly the same as that of operating profit margin. The higher a company's net profit margin, the more efficient it is at converting revenue into net profit, and the more profitable it is.

2.3.2 Liquidity ratio

liquidity ratio is an indicator to evaluate the company's ability to use short-term assets to repay debt. In the following thesis, I will introduce three main current ratios, which are current ratio, quick ratio and cash ratio.

1. Current ratio

Current ratio refers to the ratio between the current assets and current liabilities of a company. It refers to the current assets owned by each unit of liabilities of a company. It is also an indicator to measure the short-term solvency of a company. It can be defined by the following formula:

$$Current\ ratio = \frac{current\ assets}{current\ liabilities} \tag{2.11}$$

The higher a company's liquidity ratio, the stronger its short-term solvency. However, the current ratio is not as high as possible. If the company’s current ratio is too high, it means that the company has too much current assets, and the excessively high current assets may reflect the company has too many inventories, which means the company has many unsaleable products; at the same time, too many current assets may also means the company have too much cash not used for operations, which also means the company's ability to use cash is low. Generally speaking, the current ratio of a company in the range of 2 to 3 is most conducive to the company's daily operations.

2. Quick ratios

The quick ratio, also known as the acid test ratio, is the ratio of a company's quick assets to its current assets. Quick assets are the balance of a company's current assets minus its inventory. Quick assets usually include cash and accounts receivable. Its formula is as follows:

$$Quick\ ratio = \frac{cash + account\ receivable}{current\ liabilities} \tag{2.12}$$

Meanwhile, there is another formula to calculate the quick ratio as follows:

$$Quick\ ratio = \frac{current\ assets - inventories}{current\ liabilities} \tag{2.13}$$

The quick ratio is a ratio similar to the current ratio. The same with the current ratio is that the higher the quick ratio of a company is, the stronger the short-term solvency of the company is. Meanwhile, quick ratio is not as high as possible, too high quick ratio also reflects the company is using cash with very low efficiency. But it strips out the effect of inventory sales compared with current ratios, so it is a more direct reflection of a company's short-term solvency. The current ratio is often compared with the quick ratio to determine the extent to which a company's short-term solvency is affected by inventories.

3. Cash ratio

The cash ratio is the ratio of a company's cash assets to its current liabilities, and it measures a company's ability to repay its short-term debt immediately without relying on inventory sales or receivables. It can be expressed as:

$$Cash\ ratio = \frac{cash + marketabe\ securities}{current\ liablities} \tag{2.14}$$

Investors generally think a company's short-term solvency is better when its cash ratio is above 20%. However, the cash ratio should not be too high. An excessive cash ratio means that the company's cash has not been effectively used, which also reflects the company's low ability to use cash.

2.3.3 Solvency ratio

The solvency ratio can measure the ability of a company to repay long-term debt. In the next article, I will introduce four main solvency ratios, which are asset-liability ratio, debt-equity ratio, and financial leverage ratio and interest coverage.

1.Debt ratio

The debt ratio is the ratio between the company's total liabilities and total assets. It reflects the company's liabilities per unit of assets. It is an important indicator of a company's solvency. It can be expressed as:

$$Debt\ ratio = \frac{Total\ debt}{Total\ asset} \tag{2.15}$$

Although various industries have different standards, in general, the company's debt ratio is generally recognized as a suitable level between 40% and 60%. When the debt ratio reaches 100%, the company's assets are just enough to pay off all debts. When it exceeds 100%, it will become insolvent. For the company's creditors, the lower the debt ratio, the better. Because for creditors, the most important principle is to be able to recover the capital they lent out, and the lower the company's debt ratio means the lower the risk of the company's debt default, and the money they lend to the company will be safer; But for managers and investors, it is more beneficial to increase the debt ratio as much as possible within the appropriate ratio range. Because under the premise that the company has sufficient ability to repay its debts, the company is more willing to borrow more money to expand its production and operation scale, thereby creating more revenue and profits, which is also what investors are willing to see.

2. Debt-to-equity ratio

The debt-to-equity ratio is the ratio of the company's total liabilities to the total owner's equity, which shows the company's liabilities corresponding to each unit of owner's equity. It is also one of the indicators to measure a company's ability to pay long-term debt. It can be expressed as:

$$Debt\ to\ equity = \frac{Total\ debt}{Total\ equity} \tag{2.16}$$

When the debt-to-equity ratio is equal to 1, it means that the company's total debt is equal to the total owner's equity. Market investors generally believe that a debt-to-equity ratio of 1 is the most appropriate and safe for the company.

Its economic significance is similar to the asset-liability ratio, and it can show the degree of a company's use of financial leverage. The greater the value of the debt-to-equity ratio, the higher the proportion of liabilities in the company's total assets and the company's financial risk. Will be bigger. Therefore, people's views on the debt-to-equity ratio are basically the same as the debt ratio.

3. Financial leverage

Financial leverage ratio is the ratio between the company’s total assets and total owner ’s equity, which reflects the assets corresponding to each unit ’s owner ’s equity, and it can also show a company’s solvency from the side. It can be calculated by the following formula:

$$Financial\ leverage = \frac{Total\ assets}{Total\ equity} \quad (2.16)$$

We can know from this formula that when the financial leverage ratio is 1, the company's total assets are equal to the total owner's equity, and the company has no liabilities at this time. As the company's liabilities gradually increase, the company's financial leverage ratio will become higher and higher. Therefore, the company’s creditors prefer the lower financial leverage ratio for the safety of their own assets; and the company’s operators will appropriately increase the company’s financial leverage ratio according to the actual situation of the company to expand the company’s financial leverage. Business, thereby obtaining a more lucrative return.

4. Interest coverage

The interest coverage ratio is the ratio between the company’s pre-interest and tax profits and the interest paid. It can help people judge that they have enough profit to pay interest. It can be calculated by the following formula:

$$Interest\ coverage = \frac{EBIT}{Interest\ paid} \quad (2.17)$$

A higher interest coverage ratio indicates that the company has more profit to pay interest, which can also prove that the company's financial situation is very strong. But if the company's interest coverage rate declines slowly, the company will have higher financial risks. When the interest coverage rate of a company is equal to 1, it means that the company’s profit before interest and tax is just enough to pay interest. When the interest coverage rate is less than 1, it means that the profit generated by the company can no longer pay interest, which shows the company’s financial situation Facing a crash. But the prevailing view in the market is that when a company's interest coverage ratio is less than 2.5, the company's financial situation is no longer optimistic.

2.3.4 Assets management ratio

Asset management ratio, also called activity ratio, which can reflect the company's use of assets s efficiency. In the asset management ratio, I will introduce four key ratios of inventory turnover, receivable turnover, total assets turnover and working capital turnover.

1. Working capital turnover

Working capital turnover refers to the ratio of the company's total revenue to working capital, and working capital refers to the difference between current assets and current liabilities. The working capital turnover rate reflects the number of working capital turnover in a year, and it also measures the efficiency of a company in earning revenue from working capital. It can be calculated by the following formula:

$$Working\ capital\ turnover = \frac{Total\ revenue}{Average\ working\ capital} \tag{2.18}$$

A higher working capital turnover rate means that the company uses more working capital to earn more revenue per unit, and the company uses working capital more efficiently. For example, when the working capital turnover rate is 2, he represents 1 unit of working capital and can earn 2 units of income.

2. Inventory turnover

The inventory turnover rate refers to the ratio of the company's cost of sales to the average inventory, which reflects the inventory turnover rate. It is also a key indicator that the company depends on in its daily operations. It can be expressed as:

$$Inventory\ turnover = \frac{Cost\ of\ good\ sold}{Average\ inventory} \tag{2.19}$$

According to the formula, a higher inventory turnover rate represents a higher inventory turnover rate. The company's managers can understand the company's inventory liquidity status through the inventory turnover rate, and determine whether the company's inventory ratio is at an appropriate level based on the inventory turnover rate. Generally speaking, managers usually increase the inventory turnover rate on the premise of ensuring that the company can continue to operate to improve the company's efficiency in using current assets.

3. Receivable turnover

Accounts receivable turnover ratio is the ratio between the company's total revenue and accounts receivable, it is an important indicator to measure the company's accounts receivable turnover speed. It can be expressed as:

$$Receivable\ turnover = \frac{Total\ revenue}{Account\ receivable} \tag{2.20}$$

In the current company operation, many companies use the credit transaction method of delivery before collection. Therefore, the speed of collection of accounts receivable has become a key factor for the company's operation. The higher the turnover rate of accounts receivable means the faster the company's repayment, and the faster the recovery of the account will improve the efficiency of the company's use of current assets. In the fierce competition, companies with stronger liquidity will have more competitiveness, so not only the company operators, but also the people who invest in the company are more willing to see the company have a higher receivables turnover rate.

4. Total assets turnover

The total asset turnover ratio is the ratio between the company's total revenue and total assets. It is the efficiency index of the company's use of assets to generate revenue. It can be expressed as:

$$Total\ assets\ turnover = \frac{Revenue}{Total\ assets} \tag{2.21}$$

The higher the total asset turnover rate, the faster the company's asset turnover rate, and it also reflects the company's stronger ability to generate revenue, and the higher total asset turnover rate also reflects the company's stronger assets. Management capabilities and asset utilization efficiency. At the same time, the company's managers can make targeted adjustments to the company's revenue-generating strategy based on total asset turnover. For example, when the company's total asset management rate goes down, the company manager can increase the company's asset operation efficiency by lowering the product sales price or increasing the intensity of product development to obtain more revenue.

2.4. DuPont analysis

DuPont analysis is a comprehensive analysis of the company's financial situation by analyzing the internal relationship between return on equity and several major financial ratios. This method can comprehensively analyze which financial indicators are affected by some of the company's basic ratios, which is more conducive to our deeper research on the company's financial situation. In the DuPont analysis method, we usually use the following formula to decompose the company's return on equity:

$$ROE = \frac{Net\ income}{Equity} = \frac{Net\ income}{Revenue} \cdot \frac{Revenue}{Total\ assets} \cdot \frac{Total\ assets}{Equity} \tag{2.22}$$

In this equation, $\frac{Net\ income}{Revenue}$ is net profit margin, $\frac{Revenue}{Total\ assets}$ is total assets turnover, $\frac{Total\ assets}{Equity}$ is financial leverage.

If we want to know the impact of tax and interest on the company's return on equity, we can further decompose the net profit margin in the above formula 2.22 by the following formula:

$$\frac{Net\ income}{Equity} = \frac{Net\ income}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{Equity} \tag{2.23}$$

Where $\frac{Net\ income}{EBT}$ is tax burden, $\frac{EBT}{EBIT}$ is interest burden, $\frac{EBIT}{Equity}$ is operating profit margin.

Through the above decomposition of net profit margin, we can get a more detailed decomposition formula for return on equity, which can be expressed as:

$$ROE = \frac{Net\ income}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{Equity} \cdot \frac{Revenue}{Total\ assets} \cdot \frac{Total\ assets}{Equity} \tag{2.24}$$

Through the decomposition of return on equity in formula 2.24, we can know that return on equity is affected by five basic ratios, which are tax burden, interest burden, operating profit margin, total assets turnover, and financial leverage. We can make a deeper analysis of the company's annual return on equity changes by the above ratios.

2.5. Influence quantification

Influence quantification can be used to analyze which component ratios have changed the basic ratio, and reflect how many changes each component ratio brings to the basic ratio through specific values. There are four analysis methods in Influence quantification, which are method of gradual changes, logarithmic decomposition method, functional decomposition method and integral decomposition method. Among the above methods, the most commonly used analysis methods are method of gradual changes and logarithmic decomposition method.

2.5.1. Method of gradual changes

The method of gradual changes can quantify the impact of changes in the value of each component ratio on changes in basic ratio. This method mainly focuses on the change of the absolute value of the component ratio. First, we assume that the basic ratio has three component ratios. We can use the following formula to quantify the basic ratio:

$$\begin{aligned} \Delta X_{a1} &= \Delta a_1 \cdot a_{2,0} \cdot a_{3,0} \\ \Delta X_{a2} &= a_{1,1} \cdot \Delta a_2 \cdot a_{3,0} \\ \Delta X_{a3} &= a_{1,1} \cdot a_{2,1} \cdot \Delta a_3 \end{aligned} \tag{2.25}$$

In the above formula, X is basic ratio, ΔX means absolute change of basic ratio, a represent component ratio, Δa is absolute change of component ratio, ΔX_{a1} means the absolute change of basic ratio caused by component ratio a_1. The biggest advantage of using this method is that this method can be used regardless of whether the values of component ratio and basic ratio are negative or positive.

2.5.2 Logarithmic decomposition method

Unlike The method of gradual changes, the Logarithmic decomposition method mainly quantifies the basic ratio and component ratio through the logarithmic method. Its calculation method is as follows:

$$\Delta X_{ai} = \frac{lnI_{ai}}{lnI_x} \cdot \Delta X \tag{2.26}$$

Where, X is basic ratio, ΔX means absolute change of basic ratio, a represent component ratio, $I_a = \frac{a_1}{a_0}$ means the index change of component ratio, $I_x = \frac{x_1}{x_0}$ is the index change of basic ratio. The symbol ΔX_{a1} means the absolute change of basic ratio caused by component ratio a_1. Compared with the method of gradual changes, Logarithmic decomposition method requires only one formula, which simplifies quantitative analysis and makes our calculations simpler and clearer. However, it also has a disadvantage. Due to the nature of the logarithm, when the value of the basic ratio or component ratio is negative, this method cannot be calculated.

3. Common-size Analysis of the Financial Statement

In this chapter, I will mainly introduce information about Weibo.

3.1 Company profile

Weibo is a social networking platform founded by Sina, a famous Chinese internet company on August 14, 2009. Weibo is a platform for spreading, sharing and receiving by constructing user relationships. Through Weibo's website and app, users can upload texts, pictures, videos and even live broadcasts in real time to share bits and pieces of their lives.

At the beginning of the establishment of Weibo, there were many social platforms on the Chinese market that had similar functions to Weibo. In order to attract users, Weibo invited celebrities from all walks of life to open Weibo accounts to increase the popularity of Weibo through their influence. Although there are many online social platforms in China. After 10 years of development, Weibo has become one of the most popular social platforms in China. Compared with other social platforms on the market, Weibo has a very large market share. In the last ten years, the number of Weibo users has been steadily increasing. According to the fourth quarter of 2018 report released by Weibo, as of December 2018, Weibo had 462 million monthly active users, an increase of 70 million compared with the same period in 2017; meanwhile, daily active users of Weibo The value has also reached 200 million, an increase of nearly 28 million compared with the same period in 2017. At the same time, Weibo's financial performance is also very strong. As of the end of 2018, Weibo's net income reached US $ 1.72 billion, a substantial increase of nearly 49% compared with the same period last year. At the same time, Weibo's core advertising business revenue has reached US $ 1.5 billion, compared with last year Over the same period increased by nearly 50%. In terms of profitability, the net profit attributable to Weibo in FY2018 reached US $ 5,718, an increase of nearly 62% compared with the same period last year. It is undeniable that Weibo is in a leading position in the Chinese social media market.

3.2 History of Weibo

Weibo is a very young company. It was launched on August 24, 2009 by Sina, China's most popular network company at the time. At the beginning, Sina only launched a beta version of Weibo. After receiving a good response, Sina launched some basic functions in September 2009, including sending private messages, sending updates, comments and forwarding. In the early stage of the establishment of Weibo, Sina adopted various methods to promote Weibo. (1) Take advantage of Sina's own brand effect, as well as the convenience of other Internet sites and traditional media, and comprehensively place promotional advertisements to attract the attention of potential users; (2) Take advantage of the celebrity effect of celebrities and celebrities to give play to the advantages of celebrities and celebrities (3) For users who have registered on Weibo, you can encourage them to increase the number of users by inviting their friends. Because of Sina's brand effect, continuous advertising, and a large number of celebrity effects, registered users of Weibo have increased rapidly, and it has exceeded 100 million by March 2011. This marked the first victory of Weibo and also provided a good foundation for later platform operations.

With the rapid development of Weibo, Weibo has also attracted more attention from powerful companies, including Alibaba, China's most successful e-commerce company. In April 2013, Sina officially announced that Weibo and Alibaba signed a strategic cooperation agreement. The two parties will carry out in-depth cooperation in the fields of data exchange, Internet marketing, and online payment. At the same time, Alibaba, through its wholly-owned subsidiary, purchased approximately 18% of Weibo 's common and preferred shares for US $ 586 million. And has the option to purchase up to 30% of Weibo's shares in the future. With the further development of Weibo, Weibo has taken a very important step forward in the financial market. In April 2014, Weibo was listed on NASDAQ in the United States. Its stock code is WB. When Alibaba was listed on Weibo, it fulfilled the option of buying up to 30% equity to indicate that Alibaba's future development on Weibo Optimistic.

3.3 Weibo's profit model

The business activities of Weibo mainly include related advertisements and real-time search;

provide game services on the Weibo interface; cooperate with companies and brands in various industries and industries; establish databases and provide data analysis content; and provide value-added services such as virtual products. 'S income constitutes the source of profit for Weibo. According to Weibo's operating income sources, there are five main ways to make Weibo's profit model at this stage. They are advertising revenue model, membership payment model, socialized e-commerce model, charging model to third-party application developers, and game revenue model.

3.3.1 Advertising revenue model

At present, Weibo has a variety of advertising methods: (1) The PC terminal and mobile client serve at the same time. The PC client is divided into floating ads on both sides of the page and landing page ads according to different advertising positions, according to the form of advertising The difference can be divided into APP placement ads, topic and keyword ads, etc .; mobile clients mainly include topic sticky ads, login ads and top ads. (2) The organic integration of advertising and entertainment services, such as placing advertisements on the game interface. The diversity of advertising forms can fully meet the needs of users. Moreover, the Weibo advertising business attaches great importance to "precision". Weibo makes use of Internet technology to count the information data browsed by users in time, and provides advertisements that meet the requirements of users according to their different needs, which is more targeted than other media advertisements.

3.3.2. Membership payment model

China's social media companies all have membership service functions for individual users, and ordinary users can purchase memberships for a certain fee. Ordinary users who open memberships can enjoy multiple privileges, such as protecting the security of their accounts, enjoying more services with the same identity, enjoying more types of games, and having more high-quality content. Moreover, with different membership levels, the enjoyment of privileged membership services is also very different. More and more companies or individuals are willing to pay for Weibo members and want to get more high-quality paid content. Weibo's membership payment model has gradually matured, and membership paid business income has gradually become an increasingly important part of Weibo's operating income. The important part. There are also a variety of payment methods, including online banking, mobile phone bills, voice calls, and membership card activation. It can also be paid through Alipay, which provides convenience for the majority of users and improves the efficiency of Alipay.

3.3.3 Socialized e-commerce model

With the development of Internet e-commerce, Weibo has also quickly launched a social e-commerce model based on itself. Weibo users promote their products through the Weibo platform, attract users' attention, and provide payment methods to help customers buy products that meet their needs, and then share them with other users to get widespread attention. On the Weibo platform, users can realize product marketing. Enterprises earn income through "marketing-sale-profit". Buyers browse to the products they are interested in, place orders and pay through Weibo, and then share to Weibo Here, you can achieve the purchase demand. Weibo is a platform for communication between enterprises and users, which not only can obtain the profit share of the enterprise, but also enhance the stickiness of users and improve the efficiency of users.

3.3.4 Charge model to third-party application developers

Since most mobile application software does not have a special platform to operate and manage, it is urgent to find huge popularity promotion on the big platform to develop smoothly. Weibo has high popularity and good user stickiness, so it actively cooperates with third-party application developers and uses its own user group to promote it on its own platform, which not only enriches the choices of existing users, but also attracts More attention and attention of users. The survey shows that Weibo shares revenue with third-party application developers at 3: 7, which also constitutes a stable source of revenue for Weibo.

3.3.5 Game revenue model

Online games are more and more popular among users. In a virtual environment, users can experience the fun and happiness that is difficult to achieve in real life. Weibo has launched a game service, which satisfies users' social and entertainment needs, and provides games for free, which is conducive to attracting more users. Weibo's revenue from games is mainly the revenue of game coins and props purchased by users in the game. As long as the game is fun and interesting, there are still many players willing to pay. Therefore, the development of more novel and fun games can increase Weibo's gaming revenue.

3.4 Common-size analysis of Weibo

In this part, I will analyze the financial statements of Weibo in the last five fiscal years (2014-2018) through the knowledge about Common-size analysis introduced in Chapter 2. Common-size analysis includes Horizontal common-size analysis and Vertical common-size analysis.

3.4.1 Vertical common-size analysis of Weibo

This part is the Vertical common-size analysis of Weibo. The vertical common-size analysis mainly focuses on the analysis of the change in the proportion of each item in the total number of analysis, and through the calculation and exploration of the proportion of each item in the total number of the report, to know the Make up the structure. In the next tab 3.1, tab 3.2 and Figure 3.1, I will show the calculation of the asset part of Weibo's balance sheet. In the vertical common-size analysis of the asset part, we use the total assets as a benchmark and compare it with other sub-items, so as to obtain the changes in the proportion of each sub-item in total assets over time, and display them in the form of percentages.

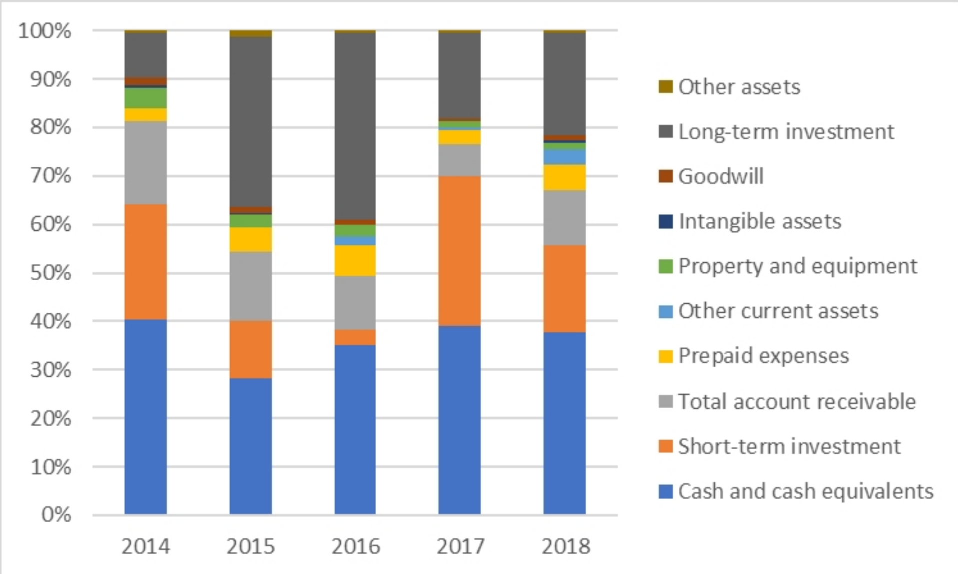
Tab. 3.1 The proportion of each item in total assets

	2014	2015	2016	2017	2018
Cash and cash equivalents	40.49%	28.29%	35.18%	39.07%	37.70%
Short-term investment	23.65%	11.73%	3.01%	30.90%	18.06%
Total account receivable	17.09%	14.33%	11.19%	6.64%	11.27%
Prepaid expenses	2.61%	5.04%	6.43%	2.70%	5.16%
Other current assets	0.00%	0.00%	1.79%	0.64%	3.22%
Property and equipment	4.39%	2.72%	2.20%	1.32%	1.39%
Intangible assets	0.50%	0.23%	0.11%	0.02%	0.64%
Goodwill	1.66%	1.32%	0.99%	0.52%	0.90%
Long-term investment	9.07%	35.11%	38.57%	17.66%	21.21%
Other assets	0.54%	1.21%	0.54%	0.52%	0.46%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%

Tab.3.2 The proportion of each item in simplified total assets

	2014	2015	2016	2017	2018
Total current assets	83.84%	59.39%	57.60%	79.96%	75.40%
Total non-current assets	16.16%	40.61%	42.40%	20.04%	24.60%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%

Figure 3.1 Vertical common-size analysis of assets



In Figure 3.1, the bottom five items are current assets, and the rest are non-current assets. First, let's analyze the current assets and non-current assets in the assets. We can see from Tab.3.2 and Figure 3.1 that in 2014-2018, Weibo ’s total current assets are larger than non-current assets. In 2014, Weibo ’s current assets accounted for the largest proportion of total assets, but in 2015 By 2016, the proportion of long-term investment that belongs to non-current assets has increased significantly, resulting in a significant decrease in the proportion of current assets. From 2017 to 2018, the proportion of the company's current assets gradually recovered and stabilized. In 2014-2018, the proportion of Weibo ’s assets has always exceeded 50%, and even in 2014 and 2017, the proportion of current assets has exceeded 80%, which shows that Weibo ’s assets have strong liquidity The proportion of high-level liquid assets also shows that the company has a strong short-term solvency and the company's financial situation is also very healthy.

Next, let's analyze each segment in the report. Through Tab.3.1 and Figure 3.1, we can see that cash and cash equivalents, short-term investments and long-term investments account for the highest proportion of total assets, and they also have the greatest impact on total assets. In 2014, cash and cash equivalents accounted for the highest proportion of total assets, reaching 40.49%, and in the above three sub-items, long-term investment accounted for the lowest total assets, reaching 9.07%. However, in 2015, the proportion of long-term investment increased significantly, reaching 35.11%, which was also the highest proportion of total assets that year, which also led to a reduction in the proportion of the other two. In 2016, the proportion of long-term investment further increased to 38.57%, and the proportion of cash and cash equivalents also rebounded from 28.29% in 2015 to 35.18% in 2016. At the same time, the proportion of short-term investment also reached the lowest in a given five years, reaching 3.01%. However, in 2017, the proportion of short-term investments has increased significantly, reaching 30.90%. At the same time, the proportion of cash and cash equivalents has also increased slightly, reaching 39.07%. However, the proportion of long-term investment has dropped significantly, from a high point in 2016 to 17.66% in 2017. In 2018, the proportion of cash and cash equivalents stabilized, dropping slightly to 37.70%. At the same time, the proportion of short-term assets also dropped significantly, reaching 18.06%. But in 2018, the proportion of long-term investment has increased slightly, reaching 21.21%.

Next, I will calculate the liabilities and equity parts of the balance sheet, and display the results through Tab. 3.3, Tab. 3.4 and Figure 3.2. In the calculation, I took the sum of total liabilities and total equity (total assets) as a benchmark, and compared it with other sub-items, so as to obtain the changes in the proportion of each sub-item in total assets over time, and pass Form display.

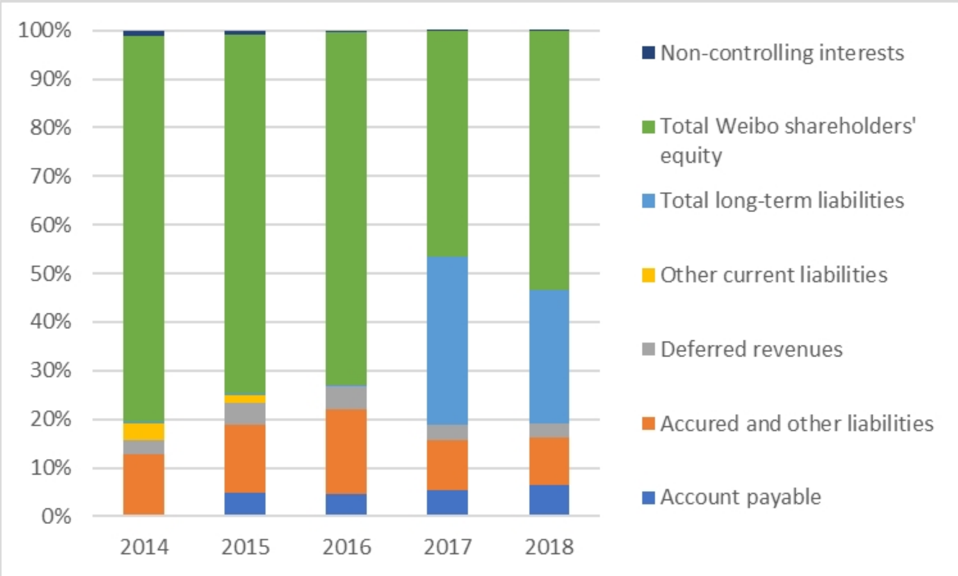
Tab. 3.3 The proportion of each item in equity and liabilities

	2014	2015	2016	2017	2018
Account payable	0.34%	4.82%	4.73%	5.27%	6.49%
Accrued and other liabilities	12.45%	13.95%	17.37%	10.49%	9.69%
Deferred revenues	2.98%	4.66%	4.72%	3.17%	3.05%
Other current liabilities	3.45%	1.45%	0.00%	0.00%	0.00%
Total long-term liabilities	0.12%	0.28%	0.14%	34.43%	27.38%
Total Weibo shareholders' equity	79.49%	73.96%	72.64%	46.55%	53.30%
Non-controlling interests	1.16%	0.88%	0.40%	0.09%	0.08%
Total liabilities and shareholders' equity	100.00%	100.00%	100.00%	100.00%	100.00%

Tab.3.4 The proportion of each item in simplified equity and liabilities

	2014	2015	2016	2017	2018
Total current liabilities	19.23%	24.88%	26.82%	18.93%	19.23%
Total long-term liabilities	0.12%	0.28%	0.14%	34.43%	27.38%
Total shareholders' equity	80.65%	74.84%	73.04%	46.64%	53.40%
Total liabilities and shareholders' equity	100.00%	100.00%	100.00%	100.00%	100.00%

Figure 3.2 Vertical common-size analysis of equity and liabilities



In Figure 3.2, the top two items belong to the equity, and the rest are liabilities. We can see from Tab 3.4 and Figure 3.2 that in the four years of 2014, 2015, 2016, and 2018, total equity is greater than total liabilities, but in 2017, total liabilities are greater than total equity. In 2014, the total equity accounted for the highest proportion of total assets, reaching 80.65%, but in the following three years it declined year by year, and the proportion of total equity in 2017 fell to a five-year period after a sharp decline from 2016. The lowest value reached 46.64%, and in 2018 this proportion picked up to 53.40%.

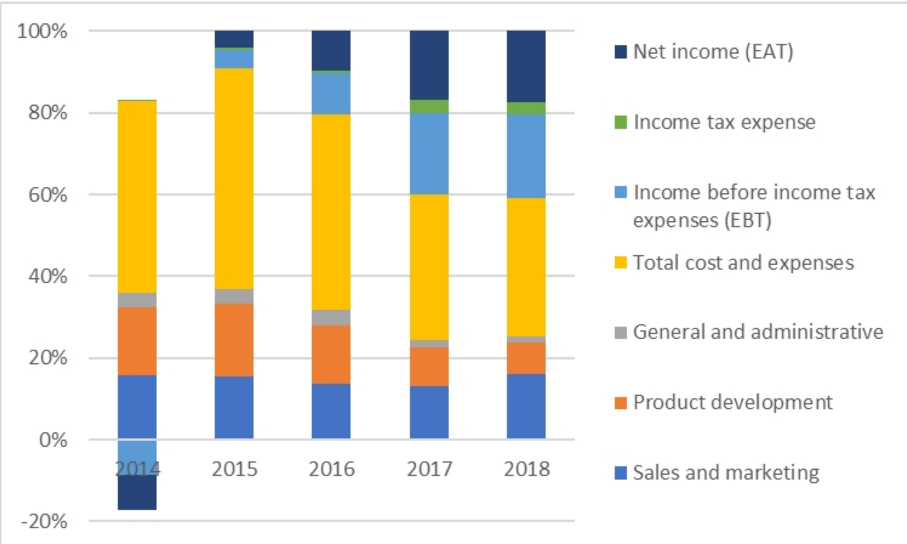
Next, we can analyze each item by Tab 3.4 and Figure 3.2. In the above analysis, we found that before 2017, Weibo had almost no long-term liabilities. In the three years before 2017, there was no one-year long-term debt ratio higher than 0.3%. However, in 2017, Weibo's long-term debt has been greatly increased, which is also the direct reason for the company's total debt to increase significantly. Through the 2018 annual report, I know the reason why the company's long-term debt ratio has increased significantly. This is because Weibo issued nearly US $ 880 million in convertible bonds in 2017, which directly led to a substantial increase in the company's long-term debt ratio.

Next, I will perform a vertical common-size analysis of the income statement, and show the results through Tab 3.5 and Figure 3.3. In the calculation, I use the total income as a benchmark and compare it with other sub-items, so as to obtain the change of each sub-item in the total assets over time, and display it as a percentage.

Tab. 3.5 The proportion of each item in income statement

	2014	2015	2016	2017	2018
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of revenues	25.02%	29.71%	26.11%	20.11%	16.16%
Sales and marketing	36.02%	26.38%	22.61%	23.96%	30.69%
Product development	37.65%	30.02%	23.50%	16.82%	14.54%
General and administrative	7.92%	6.05%	6.29%	3.68%	3.16%
Total cost and expenses	106.61%	92.15%	78.50%	64.56%	64.55%
Income before income tax expenses (EBT)	-19.25%	7.70%	16.77%	36.27%	38.92%
Income tax expense	0.34%	0.54%	0.66%	5.80%	5.60%
Net income (EAT)	-19.59%	7.15%	16.11%	30.47%	33.32%

Figure 3.3 Vertical common-size analysis of income statement



Through the data in Tab 3.5 and Figure 3.3, we first focus on the change in the proportion of Weibo's net profit to total revenue. In the five years analyzed, the proportion of Weibo 's net profit to total revenue has increased year by year, which proves that the net profit created by Weibo per unit of assets has increased year by year, which reflects the profitability of Weibo It is also increasing year by year. In 2014, Weibo was still in a state of actual loss, and the proportion of net profit was still negative, reaching -19.59%. Fortunately, Weibo's losses did not last long. They turned losses into profits in 2015, and in that year, net profit accounted for 7.15% of total revenue. In the following three years, Weibo's net profit as a percentage of total revenue increased significantly. As of the end of 2018, Weibo's net assets accounted for 33.32% of total revenue.

Next, we focus on costs and expenses. In cost and expenditure, I will analyze Cost of revenues (cost of good sales) as a percentage of total revenue. The ratio of Cost of revenues to total revenue of Weibo showed an upward trend in 2014 and 2015, and reached the highest level of 29.71% in five years in 2015. But in the next three years, this proportion gradually declined and reached 16.16% in 2018, the lowest level in five years. I think this phenomenon occurs because Weibo has been exploring profitable methods in the early stage of development, and has invested a lot of costs for this. With the signing of a strategic agreement between Weibo and Alibaba in 2014 and the listing on Nasdaq, Weibo's development has matured and its business model and profitability have also stabilized. of revenues' share of total revenue has gradually declined.

3.4.2 Horizontal common-size analysis of Weibo

In this part, I will mainly talk about Horizontal common-size analysis of Weibo. Horizontal common-size analysis is a trend that analyzes the changes in various financial data over time by comparing the various items in the financial statements, and by changing the absolute and relative values between them. In the next thesis, I will calculate the absolute value and relative value of each item change in Weibo's financial statements year by year. First, I will analyze the asset portion of Weibo ’s balance sheet through Tab 3.6 and Tab 3.7.

Tab 3.6 Absolute change of each item in total assets

	2014/2015	2015/2016	2016/2017	2017/2018
Cash and cash equivalents	-47,425	127,326	636,187	233,643
Short-term investment	-67,975	-67,251	760,542	-200,461
Total account receivable	20	-4,176	54,056	198,983
Prepaid expenses	23,938	24,369	2,569	99,588
Other current assets	0	18,565	-2,209	88,963
Total current assets	-91,442	98,833	1,451,135	420,726
Property and equipment	-8,024	-34	10,977	11,830
Intangible assets	-1,573	-866	-583	20,586
Goodwill	-535	-851	3,154	15,926
Long-term investment	230,902	105,254	52,404	242,249
Other assets	6,347	-4,581	7,788	1,546
Total assets	135,675	197,755	1,524,875	712,863

Tab 3.7 Percentage change of each item in total assets

	2014/2015	2015/2016	2016/2017	2017/2018
Cash and cash equivalents	-16.65%	53.62%	174.41%	23.34%
Short-term investment	-40.85%	-68.32%	2438.57%	-25.32%
Total account receivable	0.02%	-3.47%	46.58%	116.97%
Prepaid expenses	130.40%	57.62%	3.85%	143.84%
Other current assets	0.00%	0.00%	-11.90%	543.92%
Total current assets	-15.50%	19.83%	242.97%	20.54%
Property and equipment	-25.99%	-0.15%	48.11%	35.01%
Intangible assets	-44.45%	-44.05%	-53.00%	3981.82%
Goodwill	-4.59%	-7.65%	30.72%	118.67%
Long-term investment	362.05%	35.72%	13.10%	53.55%
Other assets	165.89%	-45.03%	139.27%	11.55%
Total assets	19.29%	23.57%	147.05%	27.83%

Through the horizontal common-size analysis in Tab 3.6 and Tab 3.7, we can know that the total assets of Weibo have increased year by year. Between 2016 and 2017, the absolute value and relative value of Weibo's total asset growth reached the maximum. Compared with 2016, the increase in the absolute value of Weibo's total assets in 2017 was 1.525 billion US dollars, and the relative value was 147.05%. Next, we focus on current assets. Except for the decline in current assets between 2014 and 2015, all other years have maintained a growth trend, and the most obvious period of change is between 2016 and 2017. From the end of 2016 to the end of 2017, Weibo's current assets increased significantly, and its absolute value increased to 1.451 billion US dollars, the largest in the five years analyzed. At the same time, the relative value of current assets increased by 242.97%. In the same year, the increase in the absolute value of Weibo 's total assets were US $ 1.525 billion, and the increase in the absolute value of current assets contributed more than 90% of the increase in the absolute value of total assets. At the same time, between 2016 and 2017, the growth of cash and cash equivalents and short-term investment also reached the highest level in these four years. In that year, the growth of short-term investment reached an amazing 2438.57% year-on-year, and the absolute value increased by 7.61 This is also the only year in which short-term investment has grown between 2014 and 2018.

By reviewing Weibo's annual reports for 2017 and 2018, I found that Weibo's total assets increased significantly because of the 880 million US dollars' worth of convertible bonds issued by Weibo in 2017. After careful evaluation of its operating conditions, Weibo raised funds in the market by issuing convertible bonds, increased its financial leverage within an appropriate range by increasing liabilities, and finally used the funds obtained from these bonds to expand its business scale.

Next, I will conduct a horizontal common-size analysis of the liabilities and equity of the balance sheet, and show the results through Tab 3.8 and Tab 3.9.

Tab 3.8 Absolute change of each item in equity and liabilities

	2014/2015	2015/2016	2016/2017	2017/2018
Account payable	38,036	8,541	85,953	77,463
Accrued and other liabilities	29,445	63,102	88,473	48,822
Deferred revenues	18,134	9,873	32,347	18,683
Other current liabilities	-12,091	-12,188	0	0
Total current liabilities	73,524	69,328	206,773	144,968
Total long-term liabilities	1,512	-902	880,666	14,551
Total liabilities	75,036	68,426	1,087,439	159,519
Total Weibo shareholders' equity	61,468	132,553	439,362	552,872
Non-controlling interests	-829	-3,224	-1,926	472
Total shareholders' equity	60,639	129,329	437,436	553,944
Total liabilities and shareholders' equity	135,675	197,755	1,524,875	712,863

Tab 3.9 Percentage change of each item in equity and liabilities

2.2 Liability and Equity	2014/2015	2015/2016	2016/2017	2017/2018
Account payable	1571.74%	21.11%	175.43%	57.40%
Accrued and other liabilities	33.61%	53.91%	49.11%	18.18%
Deferred revenues	86.53%	25.26%	66.06%	22.98%
Other current liabilities	-49.80%	-100.00%	0.00%	0.00%
Total current liabilities	54.36%	33.21%	74.35%	29.90%
Total long-term liabilities	173.20%	-37.82%	59384.09%	1.65%
Total liabilities	55.12%	32.40%	388.95%	11.67%
Total Weibo shareholders' equity	10.99%	21.36%	58.33%	46.36%
Non-controlling interests	-10.13%	-43.82%	-46.60%	21.39%
Total shareholders' equity	10.69%	20.59%	57.76%	46.36%
Total liabilities and shareholders' equity	19.29%	23.57%	147.05%	27.83%

From Tab 3.8 and Tab 3.9, we can know that from 2014 to 2018, Weibo ’s total liabilities and total equity has been increasing year by year. First of all, we have to mention the total liabilities. Although the total liabilities of Weibo increase year by year, the growth rate of each year is different. The most obvious change range is from 2016 to 2017. Before that, the total liabilities the growth rate increased first and then decreased. From 2015 to 2016, the relative value of total liabilities increased by 32.40%, and its absolute value increased by 68.426 million US dollars, but from 2016 to 2017, the relative value of total liabilities increased by a staggering 388.95% At the same time, its absolute value increased by 1.087 billion US dollars. This surprising growth is mainly due to the nearly US $ 900 million convertible bonds issued by the aforementioned Weibo, and the issued convertible bonds are reflected in the long-term liabilities in the financial statements. We can also find very clearly that between 2016 and 2017, the relative value of long-term liabilities increased by 59384.09%, and the absolute value increased by 881 million.

The next part we want to mention is the change in total owner's equity. From 2014 to 2018, Weibo's total equity has maintained steady growth. In terms of absolute change, from 2014 to 2015, the absolute change of total equity was 60.639 million US dollars, the minimum value within five years; from 2017 to 2018, this value reached 553 million US dollars, which is the largest absolute change within five years. In terms of relative change, between 2014 and 2016, the growth rate of total equity is relatively small. Between 2016 and 2018, the growth rate of total equity has increased significantly, among which the most obvious year has also changed Appeared between 2016 and 2017, its growth rate reached 57.76%.

Next, I will conduct a horizontal common-size analysis of the liabilities and equity of the balance sheet, and show the results through Tab 3.10 and Tab 3.11.

Tab 3.10 Absolute change of each item in income statement

	2014/2015	2015/2016	2016/2017	2017/2018
Advertising and marketing revenues	137,633	168,567	425,763	502,435
Other revenues	6,086	9,342	68,491	66,029
Total revenues	143,719	177,909	494,254	568,464
Cost of revenues	58,361	29,271	60,024	46,393
Sales and marketing	5,698	22,224	127,254	251,887
Product development	17,612	10,644	39,305	56,480
General and administrative	2,442	12,293	1,097	11,994
Total cost and expenses	84,113	74,432	227,680	366,754
Income from operations	59,606	103,477	266,574	201,710
Loss from equity method investments	-1	-124	1,160	-973
Realized gain from investments	463	-410	-520	-301
Investment related impairment	-5,484	-32,156	35,414	-19,327
Interest and other income (expenses)	-436	2,413	4,503	30,548
Changes in fair value of investor option liability	46,972	0	0	40,074
Income before income tax expenses (EBT)	101,120	73,200	307,131	251,731
Income tax expense	1,463	1,725	62,430	29,476
Net income (EAT)	99,657	71,475	244,701	222,255

Tab 3.11 Percentage change of each item in income statement

	2014/2015	2015/2016	2016/2017	2017/2018
Advertising and marketing revenues	51.98%	41.89%	74.57%	50.41%
Other revenues	8.77%	12.38%	80.75%	43.07%
Total revenues	43.01%	37.23%	75.37%	49.43%
Cost of revenues	69.81%	20.62%	35.05%	20.06%
Sales and marketing	4.73%	17.63%	85.82%	91.42%
Product development	14.00%	7.42%	25.51%	29.20%
General and administrative	9.22%	42.50%	2.66%	28.34%
Total cost and expenses	23.61%	16.90%	44.23%	49.39%
Income from operations	-269.67%	275.92%	189.09%	49.49%
Loss from equity method investments	20.00%	2066.67%	-892.31%	-94.47%
Realized gain from investments	96.26%	-43.43%	-97.38%	-2150.00%
Investment related impairment	217.53%	401.70%	-88.18%	407.14%
Interest and other income (expenses)	-6.43%	38.04%	51.42%	230.38%
Changes in fair value of investor option liability	-100.00%	0.00%	0.00%	0.00%
Income before income tax expenses	-157.17%	199.02%	279.26%	60.35%
Income tax expense	129.70%	66.58%	1446.48%	44.16%
Net income	-152.22%	209.06%	231.58%	63.44%

From Tab 3.10 and Tab 3.11, we can know that from 2014 to 2018, Weibo's total revenue, total cost, and net income have been increasing. Among them, from 2014 to 2015, Weibo successfully achieved a turnaround, and has never suffered a loss since then. From 2016 to 2017, Weibo's net income increased significantly. Judging from the absolute change, during these two years, Weibo's net income increased by 245 million US dollars, and its relative value increased by 231.58%, both of which reached the largest in five years. Although the growth of the relative value of net income slowed from 2017 to 2018, reaching 60.35%. But during these two years, net income has remained at a very high level after experiencing substantial growth, reaching US $ 222 million. At the same time, the biggest change in Weibo's total revenue also occurred between 2016 and 2017. During these two years, Weibo's total revenue has increased by 75.37%, and the absolute value growth has also reached $ 494 million. Although the growth of the relative value of total revenue slowed to 49.43% in the following 2017 to 2018, its absolute value growth was still very rapid after experiencing rapid growth, reaching US $ 568 million.

Through the above data and the common-size analysis based on these data, we can clearly see that the development of Weibo has gone through two stages, and the turning point in these two stages occurred between 2016 and 2017. The nearly US $ 900 million convertible bonds issued by Weibo in 2017 injected a considerable amount of capital into the company. Although Weibo's debt ratio has increased significantly, by analyzing Weibo's financial performance from 2016 to 2018, we can clearly see that Weibo has successfully expanded its business scale using this huge debt and its financial situation is also stronger.

4. Evaluation of Financial Condition

4.1 Ratio analysis of Weibo

In this chapter, I will mainly analyze the company's financial situation through the Financial Analysis Methodology introduced in Chapter 2. In the calculation, I will measure and evaluate the financial performance of Weibo through the profitability ratio, liquidity ratio, solvency ratio, asset management ratio and DuPont analysis.

4.1.1 Profitability ratio analysis

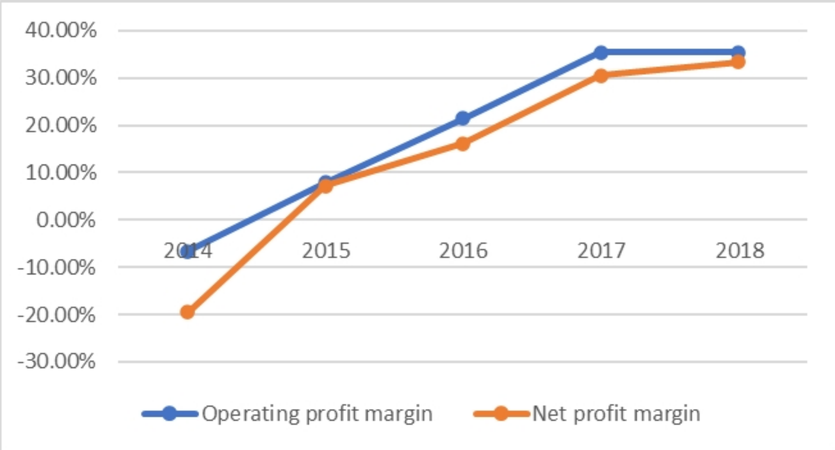
In this chapter, I will measure the profitability of Weibo from 2014 to 2018 by operating profit margin, net profit margin, return on assets and return on equity. I will show my calculations in Tab 4.1, Tab 4.2 and Figure 4.1, Figure 4.2.

First, I will show the calculation results of operating profit margin and net profit margin and their trends from 2014 to 2018 in Tab 4.1 and Figure 4.1.

Tab 4.1 Profitability ratio of Weibo during 2014-2018 (1)

	2014	2015	2016	2017	2018
Income from operations	-22,103	37,503	140,980	407,554	609,264
Net income (EAT)	-65,468	34,189	105,664	350,365	572,620
Total revenues	334,172	477,891	655,800	1,150,054	1,718,518
Operating profit margin	-6.61%	7.85%	21.50%	35.44%	35.45%
Net profit margin	-19.59%	7.15%	16.11%	30.47%	33.32%

Figure 4.1 Profitability ratio of Weibo during 2014-2018 (1)



From the second chapter of this article, we can know that operating profit margin measures an enterprise's ability to use revenue to earn operating profit, and non-operating costs are not deducted from operating profit. But net profit margin measures the company's ability to use revenue to earn net profit, which of them are after deducting non-operating costs. Generally, we think that the higher the value of these two indicators means the company has stronger profitability.

From Tab. 4.1 and Figure 4.1, we can see that the operating profit margin and net profit margin of Weibo both show a trend of increasing year by year. In 2014, Weibo's operating profit margin and net profit margin were both negative. In 2014, Weibo's operating profit margin was -6.61%, and net profit margin was -19.59%. This is because before the fourth quarter of 2014, although Weibo occupies a large market share in China, it still has many competitors in the Chinese market. Therefore, before the fourth quarter of 2014, Weibo still spent huge operating expenses to continue to expand its share in the Chinese market, which also directly caused Weibo to remain in a loss state in the first three quarters of 2014. However, as several competitors of Weibo in the Chinese market successively withdrew from July to November 2014, Weibo finally turned profitable in the fourth quarter of 2014, which was also the first time Weibo was listed on the NASDAQ. A single quarterly profit is achieved at a time. However, the profit of the last quarter is difficult to recover the losses of the first three quarters, so Weibo is still in a state of loss in 2014.

But in the next 4 years, the operating profit margin and net profit margin of Weibo no longer showed negative numbers, and showed positive values for the first time in 2015, and in 2015, these two indicators showed a large increase. In 2015, Weibo achieved its annual net profit for the first time. In 2015, Weibo's operating profit margin was 7.85% and net profit margin was 7.15%. In 2016 and 2017, these two indicators still maintained rapid and stable growth. But in 2018, although these two indicators still maintained growth, and the values of these two indicators reached the maximum in 2018, the speed their growth began to slow down. In 2018, the operating profit margin of Weibo was 35.45%, which was almost the same as that of 35.44% in 2017; the net profit margin of Weibo was 33.32% in the same year, which was still growing compared to 30.47% in 2017, but compared with the growth speed of the previous four years, its growth speed slowed down significantly in 2018.

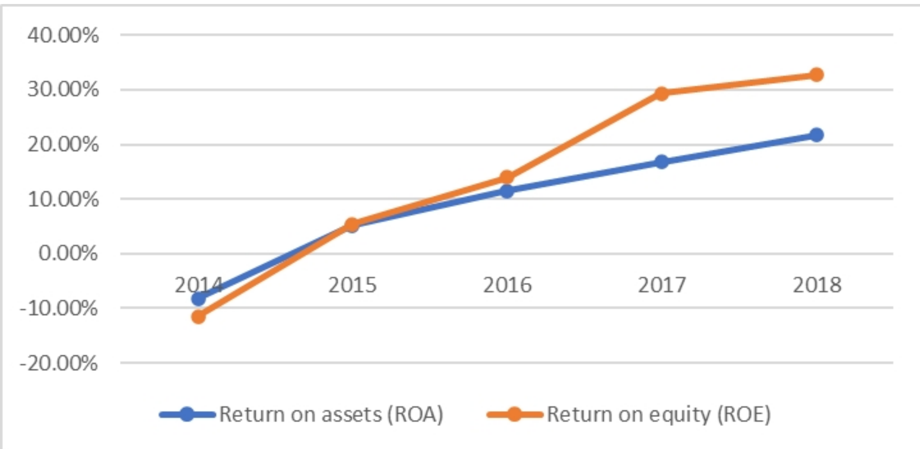
Through the above data, we can think that from 2014 to 2018, Weibo's profitability has been maintained at a high level. We can find that even if the total revenue of the denominator as these two indicators has increased significantly from US $ 334 million in 2014 to US $ 1.718 billion in 2018, Weibo's net profit margin and operating profit margin can still maintain year-on-year growth. First, benefiting from the slow withdrawal of competitors from the Chinese online social market in the fourth quarter of 2014, Weibo gradually began to have more market space. Since 2015, Weibo's dominant position in the Chinese social media market has gradually become clear. Weibo is also rapidly increasing its market share in China, and Weibo's new users have also begun to grow substantially. At the same time, Weibo has gradually determined its business strategy based on the advertising revenue model after undergoing preliminary explorations. This is an important milestone in the gradual maturity of the Weibo business system. Since 2015, the proportion of Weibo's advertising revenue to total revenue has continued to increase. We can infer the success of this business model from the performance of the above two indicators between 2015 and 2018. As the number of users has increased significantly, the number of Weibo views has also increased significantly. The strong profitability of Weibo is reflected in their ability to efficiently convert huge web views into revenue through advertising. It's also worth noting that in 2015, the difference between Weibo's net profit margin and operating profit margin narrowed significantly compared to 2014, and this gap never exceeded 5% after 2015. This data means that Weibo steadily maintained this ability after improving its ability to control non-operating expenses in 2015.

Next, I will use Tab. 4.2 and Figure 4.2 to show my calculation results of Weibo's return on assets (ROA) and return on equity (ROE) from 2014 to 2018 and their trends over time.

Tab 4.2 Profitability ratio of Weibo during 2014-2018 (2)

	2014	2015	2016	2017	2018
EBIT	-57,560	43,124	118,737	430,371	712,650
Total assets	703,514	839,189	1,036,944	2,561,819	3,274,682
Net income	-65,468	34,189	105,664	350,365	572,620
Total shareholders' equity	567,390	628,029	757,358	1,194,794	1,748,738
Return on assets (ROA)	-8.18%	5.14%	11.45%	16.80%	21.76%
Return on equity (ROE)	-11.54%	5.44%	13.95%	29.32%	32.74%

Figure 4.2 Profitability ratio of Weibo during 2014-2018 (2)



Through the knowledge introduced in Chapter 2, we can know that ROA and ROE are also the ratio to measure a company's profitability. ROA is the ratio of profit before interest and taxes to total assets, which mainly reflects the company's ability to use assets to obtain profits; and ROE is the ratio between net profit and total equity, which more reflects the company's use of equity to create profits ability. Similar to the above two indicators, we usually think that higher ROA and ROE means stronger profitability.

From Tab. 4.13 and Figure 4.5, we can find that from 2014 to 2018, the Weibo ROA and

ROE values have increased each year with the passage of time. In 2014, Weibo's ROA and ROE were both negative, and the values of these two indicators also reached their lowest point in five years in 2014. In 2014, Weibo's ROA was -8.18%, and ROE was -11.54%. This is because Weibo 's EBIT and net profit were in a state of loss in 2014. However, with the successful turnaround of Weibo in 2015, its ROA and ROA have remained above zero since then and have increased year by year. From 2015 to 2018, Weibo's ROA has been growing steadily and reached a maximum of 21.76% in 2018. However, Weibo's ROE experienced a substantial increase in 2017. In 2017, Weibo's ROE reached 29.32%, while in 2016 the ROE was 13.95%. In 2018, although Weibo's ROE continued to grow and reached a maximum value of 32.74% in five years, the growth rate slowed down significantly compared to 2017.

Through the above data, we can find that Weibo's ability to use assets and equity to make profits has always maintained a high level. Before 2017, Weibo's ROE increased, but in 2016 its ROE was only 13.95%, lagging behind the market-recognized lower limit of 15%. At the same time, after a period of development, Weibo has also developed rapidly in the Chinese market, continuously expanding its business scale, which also requires more financial support. As a result, Weibo moderately increased its operating leverage under the premise of ensuring its financial security. In October 2017, Weibo issued nearly US $ 900 million in convertible bonds. From the data of ROA and ROE in 2018, its ROE value has only slightly expanded, at a relatively safe 32.74%, and its ROA still maintains stable growth in the case of a substantial increase in total assets. The ROA of Weibo even exceeds 20%. The above data also shows that Weibo has successfully used the funds to expand its own profits while maintaining its financial stability.

At the same time, we found that in 2014, Weibo's ROA was greater than ROE, which was the only time this happened between 2014 and 2018. To explore the cause of this problem, I conducted a DuPont analysis of ROA and ROE. Through DuPont analysis, we found that ROE can be decomposed into (EAT/EBT) · (EBT/EBIT) · (EBIT/Rev) · (Rev/A) · (A/E), and ROA can be decomposed into (EBIT/Rev) / (Rev/A). We can see that the ratio of ROA divided by ROE is equal to (EAT/EBT) · (EBT/EBIT) · (A/E), these three ratios represent tax burden, interest burden and financial leverage ratio. In 2014, the values of the above three ratios were all greater than 1, which means that in 2014, it was the high ratio of these three ratios that caused Weibo ’s ROA to be greater than ROE this year.

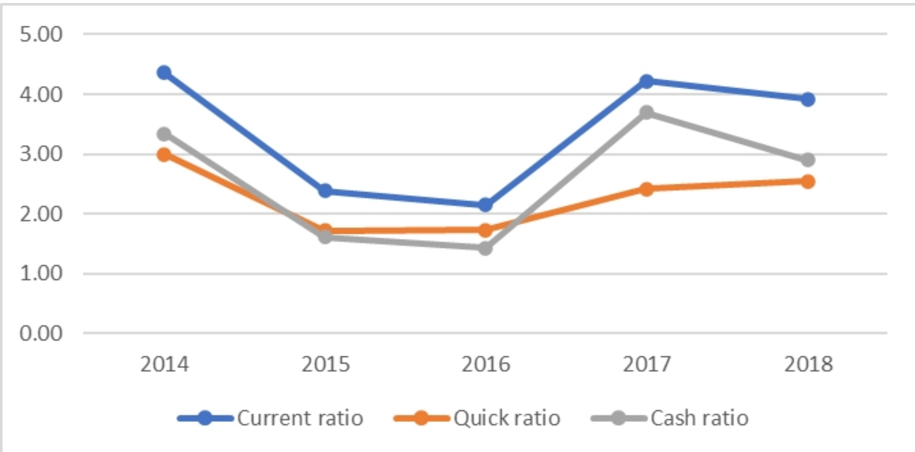
4.1.2 Liquidity ratio analysis

In this part, I will measure Weibo ’s liquidity through current ratio, quick ratio and cash ratio. At the same time, I will show Weibo ’s liquidity ratio from 2014 to 2018 and its data in Tab 4.3 and Figure 4.3.

Tab 4.3 Liquidity ratio of Weibo during 2014-2018

	2014	2015	2016	2017	2018
Total current assets	589,846	498,404	597,237	2,048,372	2,469,098
Total current liabilities	135,251	208,775	278,103	484,876	629,844
Cash and cash equivalents	284,865	237,440	364,766	1,000,953	1,234,596
Total account receivable	120,210	120,230	116,054	170,110	369,093
Short-term investment	166,414	98,439	31,188	791,730	591,269
Current ratio	4.36	2.39	2.15	4.22	3.92
Quick ratio	2.99	1.71	1.73	2.42	2.55
Cash ratio	3.34	1.61	1.42	3.70	2.90

Figure 4.3 Liquidity ratio of Weibo during 2014-2018



Now, I will review the knowledge about liquidity ratio introduced in Chapter 2. The current ratio is the ratio between current assets and current liabilities, it can reflect the company's ability to use current assets to repay short-term debt. Quick ratio is the ratio between quick assets and current liabilities. Compared with the current ratio, the quick ratio excludes the impact of inventory on the company's short-term solvency, and shows the company's ability to use quick assets (usually including cash and accounts receivable) to repay short-term debt. The cash ratio is the ratio between cash assets and current liabilities. It is a measure of a company’s ability to use cash assets to repay short-term debt. Generally speaking, a higher liquidity ratio means that the company has stronger liquidity.

Through Tab 4.4 and Figure 4.4, we can find that the trend of Weibo ’s current ratio, quick ratio and cash ratio over time from 2014 to 2018 is roughly the same. The ratio generally showed a trend of decreasing first and then recovering. At the same time, the above three ratios all exceeded 1 between 2014 and 2018, which means that Weibo ’s current assets are more abundant during the period of analysis and the ability to repay short-term debt is relatively stronger.

From 2014 to 2016, Weibo's liquidity ratio generally showed a downward trend. In 2014, Weibo's current ratio was the highest in five years, at 4.36, and its quick ratio also reached maximum value in five years, which is 2.99. In 2015, Weibo's quick ratio reached a minimum of 1.71. In 2016, Weibo ’s current ratio reached a minimum value of 2.15 and the cash ratio reached a minimum value of 1.42, while the quick ratio was basically flat compared to 2015, at 1.73. In 2017, Weibo's three liquidity ratios all showed a significant rebound. In 2018, Weibo's current ratio and quick ratio were basically the same as in 2017, while the cash ratio was created in 2017. After a new high of 3.70, it fell back to 2.90 in 2018.

Through the above Weibo liquidity ratio data, it is not difficult to find that although Weibo's liquidity ratio has declined between 2014 and 2016, Weibo's finances still have very strong liquidity in the worst situation. After Weibo obtained financing of nearly US $ 900 million in 2017, the current assets in its account further improved. In 2018, after Weibo obtained large amounts of liquid assets, its liquidity remained stable. The above data can explain that from 2014 to 2018, Weibo has sufficient liquid assets to repay short-term debt, which also shows that Weibo has a strong liquid asset management capability.

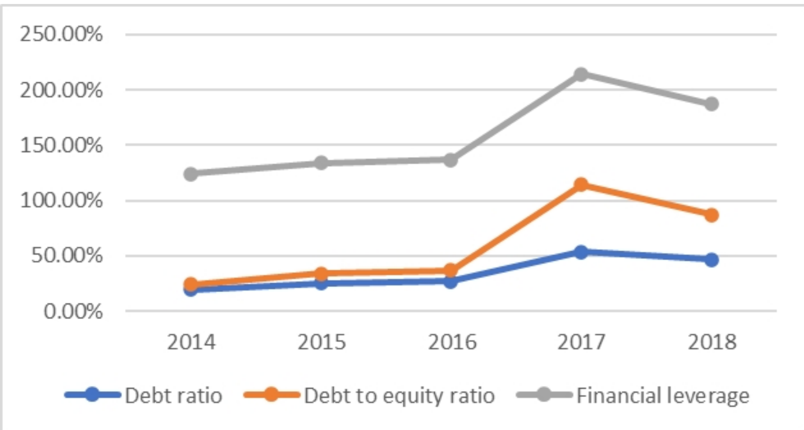
4.1.3. Solvency ratio analysis

In this part, I will explore Weibo's solvency from 2014 to 2018 through debt ratio, debt-to-equity ratio and financial leverage. I will show my calculations in Tab 4.4 and Figure 4.4.

Tab 4.4 Solvency ratio of Weibo during 2014-2018

	2014	2015	2016	2017	2018
Total liabilities	136,124	211,160	279,586	1,367,025	1,526,544
Total assets	703,514	839,189	1,036,944	2,561,819	3,274,682
Total shareholders' equity	567,390	628,029	757,358	1,194,794	1,748,738
Debt ratio	0.19	0.25	0.27	0.53	0.47
Debt-to-equity ratio	0.24	0.34	0.37	1.14	0.87
Financial leverage	1.24	1.34	1.37	2.14	1.87

Figure 4.4 Solvency ratio of Weibo during 2014-2018



Through the first half of thesis, we can know that debt ratio represents the company’s liabilities per unit of assets, debt-to-equity ratio is the ratio between the company’s total liabilities and total equity, and the financial leverage ratio is mainly used to display the proportion of liabilities in company assets. The above three indicators are important indicators to measure the company's debt repayment ability, and they can reflect the company's debt repayment ability. We generally think that the lower the value of the solvency ratio means that the company has more sufficient assets to repay the debt, and the lower its financial risk.

Through Tab 4.4 and Figure 4.4, we can find that the various kinds of solvency ratios of

Weibo are maintained in a stable and reasonable range. It is not difficult to find that Weibo ’s debt ratio, debt-to-equity ratio and financial leverage ratio maintained a similar trend over time from 2014 to 2018. From 2014 to 2016, Weibo's three solvency ratios were growing relatively slowly. In 2014, Weibo's debt ratio, debt-to-equity ratio and financial leverage ratio were at their lowest levels in five years. The debt ratio is 0.19, the debt-to-equity ratio is 0.24, and the financial leverage ratio is 1.24. From 2014 to 2016, the overall development of Weibo has been rapid but it has not yet reached a very mature level. In 2017, as Weibo's overall business model became more stable and mature, Weibo began to significantly increase its financial leverage through the issuance of large convertible bonds. We can find that the debt-servicing ratio of Weibo in 2017 has increased significantly compared with 2016, and the above three ratios have reached the maximum value in five years in 2017, where the debt ratio is 0.53, debt- The to-equity ratio is 1.14 and the financial leverage ratio is 2.14. After greatly improving its own financial leverage, Weibo's solvency ratio declined in 2018, but it is still at a relatively high level for five years. We know that a higher solvency ratio means that the company’s ability to repay its overall debt is reduced, and it brings higher financial risks. The fall in the solvency ratio shows that Weibo effectively controlled the potential financial risks caused by high debt in 2018.

4.1.4 Asset management ratio analysis

In this part, I will explore Weibo's asset management abilities from 2014 to 2018 through Working capital turnover, Accounts receivable turnover (ART), Total assets turnover, and Average collection period (ACP). I will show my calculations in Tab 4.5 and Figure 4.5, Figure 4.6.

Tab 4.5 Assets management ratio of Weibo during 2014-2018

	2014	2015	2016	2017	2018
Total revenues	334,172	477,891	655,800	1,150,054	1,718,518
Total current assets	589,846	498,404	597,237	2,048,372	2,469,098
Total current liabilities	135,251	208,775	278,103	484,876	629,844
Total account receivable	120,210	120,230	116,054	170,110	369,093
Total assets	703,514	839,189	1,036,944	2,561,819	3,274,682
Working capital turnover	0.74	1.65	2.05	0.74	0.93
Total assets turnover	0.48	0.57	0.63	0.45	0.52
Average collection period (ACP)	129.50	90.57	63.71	53.25	77.32
Accounts receivable turnover (ART)	2.78	3.97	5.65	6.76	4.66

Figure 4.5 Assets management ratio of Weibo during 2014-2018 (1)

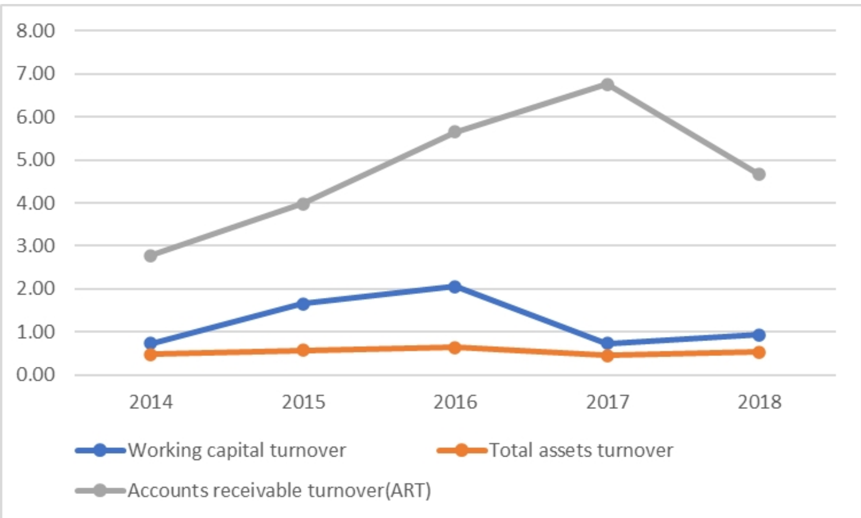
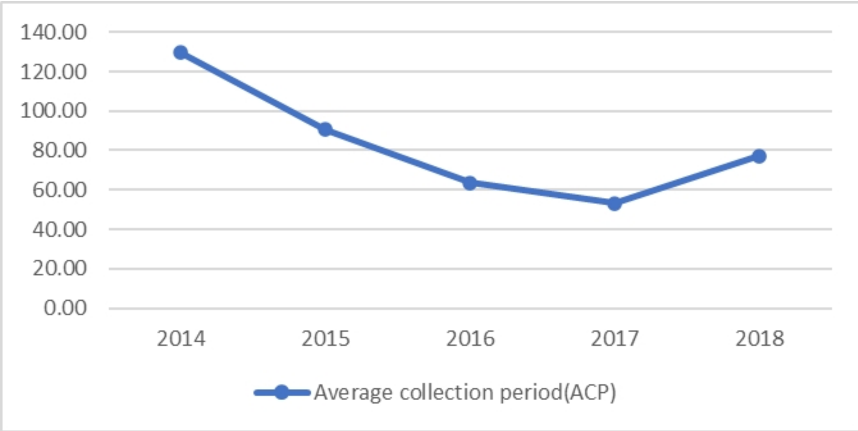


Figure 4.6 Assets management ratio of Weibo during 2014-2018 (2)



Assets management ratio is a ratio used to measure the efficiency of companies using assets. Working capital turnover is a measure of the company's efficiency in using operating assets to generate revenue. Receivable turnover is a measure of the company's receivables turnover rate. Accounts receivable turnover and Average collection period reflect the company's ability to use assets to generate revenue.

Through Tab 4.5 and Figure 4.5, Figure 4.6, we found that the overall turnover ratio of Weibo showed an upward trend and then a downward trend. In 2016, Weibo 's working capital turnover and total asset turnover reached the maximum in five years, of which working capital turnover was 2.05, total assets turnover was 0.63, and account receivable turnover reached maximum in 2017. The value is 6.76. Around 2017, the turnover ratio of Weibo began to show a downward trend, and this trend was continued in 2018. We can also find from the data of the average collection period that from 2014 to 2017, the speed of Weibo's collection of accounts is gradually decreasing. However, after 2017, Weibo's account receivables recovered slightly. From the above data, we can find that from 2014 to 2016, the operation speed of various assets of Weibo has gradually increased, and the efficiency of its asset utilization has also been in a good trend during this period, working capital turnover and total assets turnover Reaching the maximum value in 2016 means that the company's working capital and turnover efficiency of total assets reached the optimal situation in 2016. However, from 2017 to 2018, Weibo's asset operation began to change, and the operating efficiency of its assets began to decline. The decline in the asset management ratio conveyed to people that Weibo 's asset management situation appeared to have had some trouble in the past two years.

4.2 Pyramidal decomposition analysis of Weibo

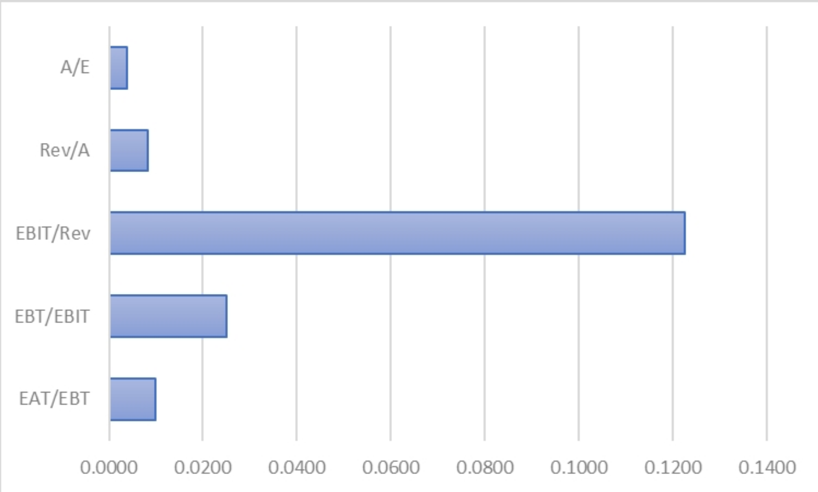
In this part we will use pyramidal decomposition analysis to analyze the financial situation of Weibo in more detail. Through the knowledge about pyramidal decomposition analysis introduced in Chapter 2, we can know that the essence of pyramidal decomposition analysis is to decompose the basic ratio into several different component ratios according to our needs. Through the influence quantification of these component ratios, we can understand how much change each component ratio brings to the basic ratio, and through the analysis results, we can make some suggestions that can improve the company's operating conditions.

In this part, I will mainly use Method of gradual changes to decompose and influence quantification of Weibo's return on equity from 2014 to 2018. In the next calculation, I will decompose return on equity into five parts, which are tax burden (EAT/EBT), interest burden (EBT/EBIT), operating profit margin (EBIT/Rev), total assets turnover (Rev/A), and financial leverage (A/E), and show my calculations through Tab 4.6, Tab 4.7, Tab 4.8, Tab 4.9 and Figure 4.7, Figure 4.8, Figure 4.9, Figure 4.10.

Tab 4.6 Influence of each component ratio to the return on equity during 2014-2015

	2014	2015	Influence	Order
EAT/EBT	101.75%	92.96%	1.00%	3
EBT/EBIT	111.78%	85.29%	2.50%	2
EBIT/Rev	-17.22%	9.02%	12.26%	1
Rev/A	47.50%	56.95%	0.84%	4
A/E	123.99%	133.62%	0.39%	5
sum			16.98%	

Figure 4.7 Influence of each component ratio to the return on equity during 2014-2015

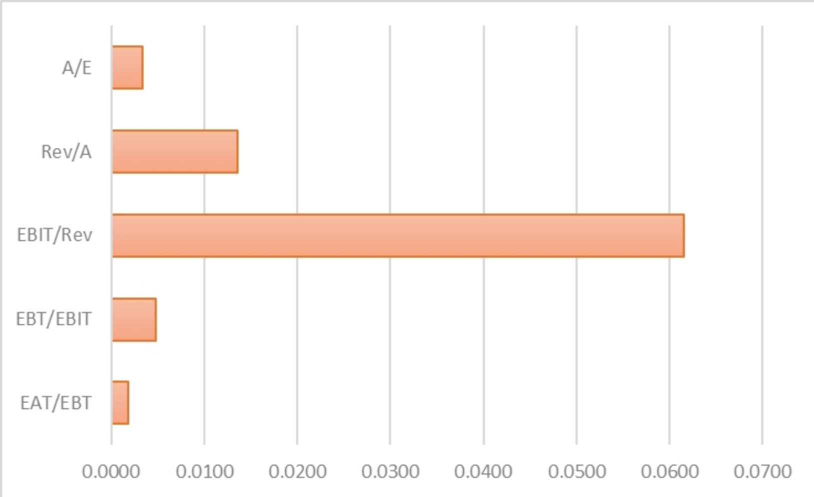


Through the above table and figure, we can find that from 2014 to 2015, the above five component ratios all have a positive impact on Weibo's ROE, of which the most contributed is EBIT/Rev, the least contributed is A/E. The above data shows that from 2014 to 2015, Weibo's financial indicators have maintained a good state. Among the various component ratios, EBIT/Rev's performance is the most eye-catching, which shows that during the two years Bo's profitability is outstanding. At the same time, the least ratio that contributes to ROE during these two periods is A/E, which means that the financial leverage level of Weibo has not reached the ideal level during these two years, and Weibo also needs to Improve your own financial leverage.

Tab 4.7 Influence of each component ratio to the return on equity during 2015-2016

	2015	2016	Influence	Order
EAT/EBT	92.96%	96.08%	0.18%	5
EBT/EBIT	85.29%	92.62%	0.48%	3
EBIT/Rev	9.02%	18.11%	6.15%	1
Rev/A	56.95%	63.24%	1.36%	2
A/E	133.62%	136.92%	0.34%	4
sum			8.51%	

Figure 4.8 Influence of each component ratio to the return on equity during 2015-2016

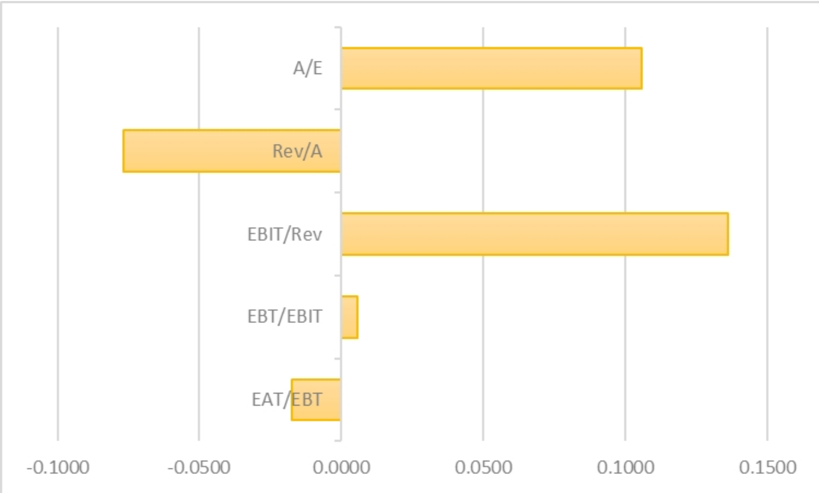


Through Tab 4.7 and Figure 4.8, we can know that from 2015 to 2016, the five component ratios of Weibo have a positive impact on the growth of ROE, of which the most contributed component ratio for return on equity is still EBIT/Rev, which shows that from 2014 to 2016, Weibo has maintained a high level of profitability. At the same time, we found that EAT/EBT contributed least to the growth of Weibo's ROE during these two years, which shows that Weibo's tax burden management is relatively weak during these two years. In the following operations, Weibo needs to improve its ability to manage tax

Tab 4.8 Influence of each component ratio to the return on equity during 2016-2017

	2016	2017	Influence	Order
EAT/EBT	96.08%	84.00%	-1.75%	4
EBT/EBIT	92.62%	96.92%	0.57%	5
EBIT/Rev	18.11%	37.42%	13.62%	1
Rev/A	63.24%	44.89%	-7.65%	3
A/E	136.92%	214.42%	10.60%	2
sum			15.37%	

Figure 4.9 Influence of each component ratio to the return on equity during 2016-2017

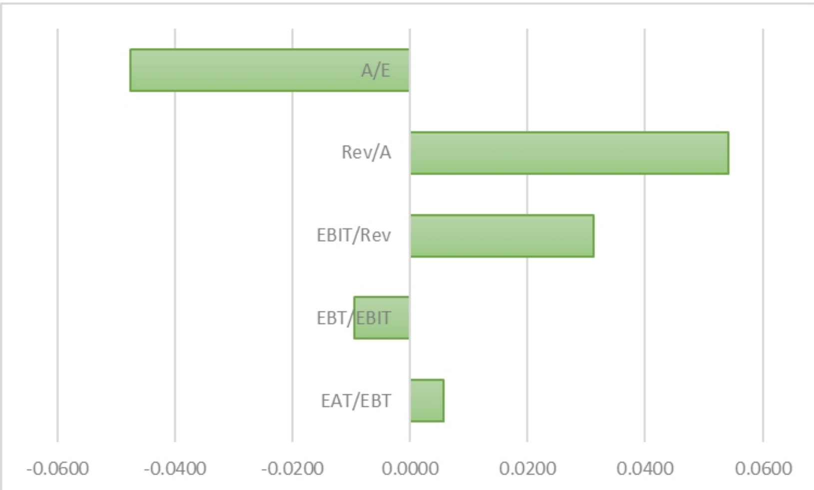


Through the analysis of the component ratio data from 2016 to 2017, we first saw that the ROE of Weibo still maintained growth from 2016 to 2017, which shows that the growth of Weibo is continuously improving. Next, when talking about the various component ratios of Weibo, first of all, we found that in the past two years, there have been two component ratios that have a negative contribution to the growth of ROE. Among them, the most dragging on ROE is Rev/A. This shows that Weibo has encountered some troubles in asset management during these two years. Weibo needs to manage income and assets in the next time to improve the efficiency of asset use. Another component ratio that has made a negative contribution to the growth of ROE is EAT/EBT. This hidden danger has already emerged as early as 2015-2016. From 2015 to 2016, it was the component ratio that contributed the least to ROE's growth, and from 2016 to 2017, this hidden danger showed an expanding trend. We think Weibo's managers should make deeper management on tax. At the same time, we are concerned that the component ratio that contributed the most to the growth of ROE from 2016 to 2017 is EBIT/Rev. In the analysis of the previous three years, it has always been the most outstanding component ratio, which also shows that Weibo has done a good job in the management of profitability.

Tab 4.9 Influence of each component ratio to the return on equity during 2017-2018

	2017	2018	Influence	Order
EAT/EBT	84.00%	85.61%	0.56%	5
EBT/EBIT	96.92%	93.85%	-0.95%	4
EBIT/Rev	37.42%	41.47%	3.13%	3
Rev/A	44.89%	52.48%	5.42%	1
A/E	214.42%	187.26%	-4.75%	2
sum			3.42%	

Figure 4.10 Influence of each component ratio to the return on equity during 2017-2018



Through Tab 4.9 and Figure 4.10, we first saw that the Weibo ROE still maintained a growing trend from 2017 to 2018. At the same time, we also found two component ratios that made a negative contribution to ROE It is A/E and EBT/EBIT. The first is A/E, the financial leverage ratio, which is the ratio that has the greatest negative impact on Weibo 's ROE from 2017 to 2018. This shows that the financial management personnel of Weibo need to pay attention to the risks brought by financial leverage in the next time. The second is EBT/EBIT, which is a ratio that reflects the company's interest burden level. Although it has less negative impact on Weibo's ROE, we still need to remind Weibo managers to pay more attention to the management of interest in the next time. In the other hand, from 2017 to 2018, the component ratio that contributed the most to ROE was Rev / A. In the previous two years, its performance was not satisfactory, especially from 2016 to 2017. The negative impact has reached its maximum. However, from 2017 to 2018, Weibo has made significant improvements in this regard to fill this financial loophole.

5. Conclusion

This thesis mainly evaluates the financial condition of Weibo from 2014 to 2018, and compares and analyzes the data in the financial statements. In the first chapter, we mainly introduced the structure of thesis and gave a concise statement on Weibo. In the second chapter, we introduced some of the financial methodology used in this thesis, including three basic financial statements, two basic common-size analysis and several basic financial ratio analysis methods. In Chapter 3, I gave a more detailed introduction to Weibo, including its background, history profit model and common-size analysis. First, through vertical common-size analysis, we can find that Weibo ’s current assets account for a higher proportion of total assets, which means that Weibo ’s assets are highly liquid, and at the same time, Weibo ’s total liabilities have always been lower than the total equity, which means with Weibo having lower financial leverage, its financial risk will also be lower. Through horizontal common-size analysis, we can find that the total assets of Weibo have increased year by year, and the net income has also increased year by year. This shows that Weibo has been growing steadily and healthy from 2014 to 2018.

Chapter 4 is the most critical chapter of this thesis. In this chapter, I evaluate the financial condition of Weibo by conducting various financial ratio analyses on Weibo.

First, we conducted a financial ratio analysis of Weibo, which includes profitability ratio, liquidity ratio, solvency ratio and assets management ratio.

Next, we analyzed the profitability ratio. We found that from 2014 to 2018, Weibo ’s operating profit margin, net profit margin, return on assets and return on equity all grew year by year, which shows that Weibo has a good profitability during these 5 years.

Next, we analyzed the liquidity ratio. We found that from 2014 to 2018, Weibo ’s current ratio, quick ratio and cash ratio were all higher than 1, which shows that Weibo ’s assets have good liquidity.

Through the analysis of Weibo's solvency ratio, we found that although Weibo's solvency ratio has increased year by year, they are at a lower level for most of the time, among which debt ratio and debt-to-equity ratio are kept below 1 in the most of time , and the financial leverage ratio is basically kept below 2. Although Weibo's solvency is now at a low level, due to its overall upward trend from 2014 to 2018, Weibo needs to pay attention to controlling the financial risks caused by the increase in the solvency ratio.

By analyzing the assets management ratio of Weibo, we found that Weibo's asset management ratio performed strongly from 2014 to 2017, but performed weakly from 2017 to 2018. From 2017 to 2018, Weibo's assets management ratio began to show a downward trend, which shows that Weibo's asset management capabilities have experienced some problems in the past two years. In the next time, Weibo’s managers need to pay more attention to the company's asset management.

Next, we conducted a pyramidal decomposition analysis on the ROE of Weibo. In this analysis, we decomposed the basic ratio ROE into five component ratios. Through quantitative analysis of these component ratios, we found that from 2014 to 2018 the component ratio that performed poorly were the financial leverage ratio and tax burden. If Weibo wants to have better performance in future operations, they need to improve the management of financial leverage and cost of tax.

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List of abbreviations

A	Asset
ACP	Average collection period
D	Debt
EBIT	Earnings before interest and tax
EBT	Earnings before tax
EAT	Net profit
E	Shareholders' equity
NPM	Net profit margin
ROA	Return on assets
ROE	Return on equity
Rev	Revenue
TAT	Total assets turnover

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Ostrava dated 29. 5. 2020..........

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List of Annexes

Annex 1: Consolidated Balance sheet of Weibo during period 2014-2018 (1) (USD in thousands)

	2014	2015	2016	2017	2018
Cash and cash equivalents	284,865	237,440	364,766	1,000,953	1,234,596
Short-term investment	166,414	98,439	31,188	791,730	591,269
Total account receivable	120,210	120,230	116,054	170,110	369,093
Prepaid expenses	18,357	42,295	66,664	69,233	168,821
Other current assets	0	0	18,565	16,356	105,319
Total current assets	589,846	498,404	597,237	2,048,372	2,469,098
Property and equipment	30,874	22,850	22,816	33,793	45,623
Intangible assets	3,539	1,966	1,100	517	21,103
Goodwill	11,652	11,117	10,266	13,420	29,346
Long-term investment	63,777	294,679	399,933	452,337	694,586
Other assets	3,826	10,173	5,592	13,380	14,926
Total assets	703,514	839,189	1,036,944	2,561,819	3,274,682

Annex 2: Consolidated Balance sheet of Weibo during period 2014-2018 (2) (USD in thousands)

	2014	2015	2016	2017	2018
Account payable	2,420	40,456	48,997	134,950	212,413
Accrued and other liabilities	87,595	117,040	180,142	268,615	317,437
Deferred revenues	20,957	39,091	48,964	81,311	99,994
Other current liabilities	24,279	12,188	0	0	0
Total current liabilities	135,251	208,775	278,103	484,876	629,844
Total long-term liabilities	873	2,385	1,483	882,149	896,700
Total liabilities	136,124	211,160	279,586	1,367,025	1,526,544
Total Weibo shareholders' equity	559,204	620,672	753,225	1,192,587	1,745,459
Non-controlling interests	8,186	7,357	4,133	2,207	2,679
Total shareholders' equity	567,390	628,029	757,358	1,194,794	1,748,738
Total liabilities and shareholders' equity	703,514	839,189	1,036,944	2,561,819	3,274,682

Annex 3: Consolidated Income statement of Weibo during period 2014-2018 (USD in thousands)

	2014	2015	2016	2017	2018
Advertising and marketing revenues	264,782	402,415	570,982	996,745	1,499,180
Other revenues	69,390	75,476	84,818	153,309	219,338
Total revenues	334,172	477,891	655,800	1,150,054	1,718,518
Cost of revenues	83,599	141,960	171,231	231,255	277,648
Sales and marketing	120,361	126,059	148,283	275,537	527,424
Product development	125,832	143,444	154,088	193,393	249,873
General and administrative	26,483	28,925	41,218	42,315	54,309
Total cost and expenses	356,275	440,388	514,820	742,500	1,109,254
Income from operations	-22,103	37,503	140,980	407,554	609,264
Loss from equity method investments	-5	-6	-130	1,030	57
Realized gain from investments	481	944	534	14	-287
Investment related impairment	-2,521	-8,005	-40,161	-4,747	-24,074
Interest and other income (expenses)	6,780	6,344	8,757	13,260	43,808
Changes in fair value of investor option liability	-46,972	0	0	0	40,074
Income before income tax expenses (EBT)	-64,340	36,780	109,980	417,111	668,842
Income tax expense	1,128	2,591	4,316	66,746	96,222
Net income (EAT)	-65,468	34,189	105,664	350,365	572,620